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STATE OF MONTANA

DEPARTMENT OF ADMINISTRATION

TREASURY DIVISION

Fiscal Year Ended June 30, 1978



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STATE OF MONTANA

DEPARTMENT OF ADMINISTRATION

TREASURY DIVISION

Fiscal Year Ended June 30, 1978

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APPOINTIVE AND ADMINISTRATIVE OFFICIALS

DEPARTMENT OF ADMINISTRATION

TREASURY DIVISION

David Lewis	Director of the Department of Administration and "Ex officio" State Treasurer
Vera S. Freseman	Administrator, Treasury Division

SUMMARY OF RECOMMENDATIONS

As a separate section in the front of each audit report we include a listing of all recommendations together with a notation as to whether the agency concurs or does not concur with each recommendation. This listing serves as a means of summarizing the recommendations contained in the report and the audited agency's reply thereto and also as a ready reference to the supporting comments. The full reply of the Department of Administration is included in the back of this report.

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The Department of Administration implement procedures to achieve timely submission of collection reports.	4
<u>Agency Reply:</u> Concur. See page 21.	
Transfer the moneys in the bond and coupon account to the clearing bank to provide for its investment.	5
<u>Agency Reply:</u> Do not concur. See page 22.	
The Department of Administration work with the State Auditor to determine the best method of accounting for returned warrants.	7
<u>Agency Reply:</u> Concur. See page 22.	
The Board of Investments ensure that the final negotiated compensating balances are equitable for both the state of Montana and the depository banks.	10
<u>Agency Reply:</u> Concur. See page 23.	
Implement written procedures to maintain the amount of state moneys in depository banks at agreed upon balances.	10
<u>Agency Reply:</u> Concur. See page 23.	
Consider consolidating state deposits into one depository bank in each Montana town.	10
<u>Agency Reply:</u> Concur. See page 23.	

SUMMARY OF RECOMMENDATIONS (Continued)

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Record all needed information for contractor deposits on SBAS.	12
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Issue a receipt to the contractor and the agency awarding the contract for each security received.	13
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Fully insure the state's bearer instruments or establish a policy to coinsure securities exceeding the policy amount.	14
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Deposit all CETA checks upon receipt.	16
<u>Agency Reply:</u> Concur. See page 24.	
Comply with Section 79-1215, R.C.M. 1947, or seek legislation to change the law.	16
<u>Agency Reply:</u> Concur. See page 25.	

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59601
406/449-3122



MORRIS L. BRUSETT, C.P.A.
LEGISLATIVE AUDITOR

ELLEN FEAVER, C.P.A.
DEPUTY LEGISLATIVE AUDITOR
JOHN W. NORTHEY
STAFF LEGAL COUNSEL

The Legislative Audit Committee
of the Montana State Legislature:

We have examined the Statement of Cash Position, Treasurer's Cash Accountability Account of the Treasury Division of the Department of Administration as of June 30, 1978. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances, except as indicated in the following paragraphs.

We did not audit the Employment Security Division's bank accounts as these accounts are outside the state treasury system. Total cash in these accounts was \$1,538,318 at June 30, 1978. We also did not test the balances presented for investments. These investments were examined by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to those investments is based solely upon the report of the other auditors.

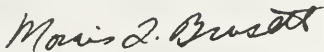
The Treasurer's Cash Accountability Account is a self-balancing set of accounts which records the division's responsibility for certain state resources. The resources include all cash deposited with the Treasurer or with banks to the credit of the State Treasurer; all investments made by the Board of Investments from surplus treasury cash; and money advanced to paying agents for redemption of certain bonds. These resources are balanced by the Treasurer's Accountability for Cash in the Treasury and the Treasurer's Accountability for Outstanding Warrants. The statement does not include state money or investments not deposited to the credit of or held by the Treasurer; nor does it include any other state resources, receivables, liabilities, or claims against state money.

The Statement of Cash Position, Treasurer's Cash Accountability Account is not accompanied by statements of revenue, expenditure, or a statement of changes in fund balance since it reports only specific resources and the accountability for these resources at June 30, 1978. Revenue, expense, and changes in fund balances are reported in the statements of state agencies which collect revenue or authorize expenditures.

In our opinion, the Statement of Cash Position, Treasurer's Cash Accountability Account, presents

fairly the resources and accountability which that statement purports to present at June 30, 1978.

Respectively submitted,

A handwritten signature in dark ink, reading "Morris L. Brusett". The signature is written in a cursive style with a prominent "M" and "B".

Morris L. Brusett, C.P.A.
Legislative Auditor

October 16, 1978

OBJECTIVE OF INTERNAL CONTROL REVIEW

We have examined the Statement of Cash Position, Treasurer's Cash Accountability Account of the Treasury Division of the Department of Administration for the fiscal year ended June 30, 1978. As part of our examination, we made a study and evaluation of the division's system of internal accounting control to establish a basis for reliance thereon in determining the nature, timing, and extent of other auditing procedures necessary for expressing an opinion on the Statement of Cash Position, Treasurer's Cash Accountability Account, and to assist in planning and performing our examination of the financial statement.

The objective of internal accounting control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of internal accounting control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgments by management.

Our examination would not necessarily disclose all weaknesses in the system of internal accounting control because it was based upon selective tests of accounting

records and related data. However, our study and evaluation disclosed conditions that we believe to be material weaknesses in the internal accounting controls established by the division and the division's compliance with those controls. We discuss these weaknesses in this report.

COMMENTS

GENERAL

Article VII, Section 1, Constitution of the State of Montana, 1889, created the Office of the State Treasurer as a constitutional office under the executive branch of government of the state of Montana. The 1972 Montana Constitution deleted the Office of the State Treasurer as a constitutionally created office.

Effective July 1, 1977, and pursuant to Section 82A-214, R.C.M. 1947, the Office of the State Treasurer was abolished and all functions and duties of the State Treasurer as prescribed by law were transferred to the director of the Department of Administration who serves as "ex officio" State Treasurer. The State Treasurer's Office became the Treasury Division of the Department of Administration on July 1, 1977.

During the fiscal year ended June 30, 1978, the division employed nine individuals. These employees perform the following functions assigned to the division: (1) receiving and accounting for all moneys belonging to the state, (2) providing custody of all moneys and securities of the state unless otherwise expressly provided by law, and (3) ensuring that state moneys are adequately collateralized.

We perform an annual audit of the Statement of Cash Position of the Treasurer's Cash Accountability Account. As part of each audit, we test the Treasury

Division's compliance with the state laws and policies relating to the cash accountability functions. Of the 24 recommendations in our fiscal year 1976-77 audit report on the Treasury Division, five have not been implemented. These recommendations are reiterated in this report. We found certain additional matters in the Treasury Division's operations which warrant corrective action.

We thank the Director of the Department of Administration, the Administrator of the Treasury Division, and their staff for cooperation and assistance during our audit.

CASH IN DEMAND ACCOUNTS

The Treasury Division's general ledger for cash in demand accounts represents the combined balances for 163 accounts in 157 depository banks. At June 30, 1978 the ledger reported a balance of \$10,310,669 in cash in demand accounts. We noted the following problems associated with this account.

Employment Security Division Accounts

The Treasury Division's cash in demand account subsidiary ledger at June 30, 1978 included two Department of Labor and Industry, Employment Security Division accounts totalling \$1,538,317. The Treasury Division neither reconciles nor controls these accounts. The division does not receive the bank statements or write checks on these accounts. Therefore,

the division cannot reconcile the accounts but must rely upon the Employment Security Division for account balances.

Our Department of Labor and Industry, Employment Security Division (ESD) audit reports for the fiscal years ended June 30, 1975 and June 30, 1977 addressed the internal control and duplication of duties problems associated with these bank accounts. We also presented recommendations to correct the problems. We also addressed this issue in our prior audit reports relating to the Treasury Division for the fiscal years ended June 30, 1976 and June 30, 1977.

We are presently working with representatives of the United States Department of Labor as well as the Montana Department of Labor and Industry to determine the feasibility of transferring control of all existing ESD Treasury bank accounts to the Treasury Division. Transferring the accounts to the Treasury Division would eliminate internal control weaknesses, duplication of duties, and other problems associated with these bank accounts.

Collection Report Delays

State agencies do not always submit timely collection reports for deposits to the Treasury Division's demand accounts. The collection report is the document that records, on the Statewide Budgeting and Accounting

System (SBAS), cash increases for state agencies and for the state treasury. We found that the time lag between the actual bank deposit and the recording of that deposit on the state's books is often three to four weeks. There were 22 deposits totaling \$33,406 in transit at June 30, 1978, which were still in transit at July 31, 1978. A similar situation was noted in our prior reports relating to the division.

This problem is significant because the Treasury Division uses a special SBAS daily cash report to draw down cash balances in banks for all but the twenty largest banks. The bank balances as reported on SBAS are behind actual bank deposit balances due to collection report delays. The division should work with other Department of Administration divisions to reduce these delays.

RECOMMENDATION

We recommend that the Department of Administration implement procedures to achieve timely submission of collection reports.

PURCHASED BONDS AND COUPONS CLEARING

The general ledger showed a balance of \$476,464 in the purchased bonds and coupons clearing account at June 30, 1978. We noted the following problem associated with this account.

Bond Account

The Treasury Division maintains a separate bank account for bonds and coupons redeemed in Helena. This account is kept in a different Helena bank than the clearing bank. General fund money is used for redeeming bonds and coupons but most of these items are not general fund obligations. The general fund is, therefore, loaning money to other funds for bond and coupon redemption. However, the general fund loan is not recorded. There is no specific statutory authority for the Treasury Division to follow this procedure.

The state does not earn interest on the moneys kept in the separate Helena bank account. During fiscal year 1977-78, this account had an average monthly collected balance of \$38,857. At an interest rate of 7.15 percent, this costs the state of Montana at least \$2,778 each year in lost interest. A separate bank account should not be maintained in Helena to redeem bonds and coupons. These obligations could be redeemed at the clearing bank. The bond and coupon bank account should be closed, and the money should be transferred to the clearing bank to provide for its investment.

RECOMMENDATION

We recommend that the division transfer the moneys in the bond and coupon account to the clearing bank to provide for its investment.

OUTSTANDING WARRANTS

The State Auditor's Office considers a warrant to be outstanding from the time it is prepared until it is cashed or cancelled. At June 30, 1978, the agency had \$62,230 of warrants returned to it for various reasons. These warrants represent an overstatement of outstanding warrants since they may not legitimately be cashed when they are in the State Auditor's possession.

A reserve account could be established to account for the returned warrants so they could be properly reported in the state's financial statements at June 30 of each year. This account could then be reversed at the beginning of each fiscal year. The Department of Administration should work with the State Auditor to determine the best method of accounting for returned warrants.

Although this subject was discussed in our prior report, the applicable prior report recommendation has not been implemented. In response to our previous report the State Auditor indicated that in his opinion the additional cost to account for the various categories of issued warrants would be difficult to justify. However, the cost should be insignificant if the transaction is recorded by a journal entry which is later reversed.

RECOMMENDATION

We recommend that the Department of Administration work with the State Auditor to determine the best method of accounting for returned warrants.

DEMAND DEPOSIT BALANCES IN DEPOSITORY BANKS

Through initial negotiations with banks outside of Helena, the division maintains \$1,668,000 in compensating balances in the outside banks. The compensating balances, ranging from \$5,000 to \$50,000, were established by each individual bank rather than in total. Compensating balances have been under negotiation for approximately 18 months, and an official of the Investment Division stated that the Board of Investments has not approved the amount of the new compensating balances under the provisions of Section 79-301(3), R.C.M. 1947. Upon final negotiation of the amounts, the Board of Investments should ensure that the amounts are equitable for both the state of Montana and the depository banks.

The Treasury Division maintains deposits in state depository banks which significantly exceed the negotiated compensating balances. As a result, the state of Montana loses interest on these idle demand account balances. In our audit of the Board of Investments for the fiscal year ended June 30, 1975, we reported an average daily balance in banks outside of Helena of

\$5,697,900 for September, October, and November 1975. In our audit of the State Treasurer's office for fiscal year ended June 30, 1976, we reported average daily balances in the outside banks of \$5,617,000 and \$6,097,000 during September and October 1976, respectively. In our audit of the Treasury Division for fiscal year ended June 30, 1977, we reported average daily balances in the outside banks of \$5,248,900, \$4,949,600, \$4,330,800, and \$5,063,600 during May, June, July, and October 1977, respectively. To reduce the total amount of moneys in outside banks listed above, the Treasury Division established a new draw down system near the end of fiscal year 1977-78.

Under the new system, which became effective in June 1978, a Treasury Division employee was to call daily the 20 banks with the greatest dollar amount of deposits to determine the state's balance. Then, if necessary, a check was to be written on the Helena clearing bank to draw down these outside banks. The 20 largest banks were previously on a wire transfer system. The remainder of the wire drawn banks, approximately 48 banks, continued to transfer state money by wire to the clearing bank. The smaller banks remained on the check draw down system used previously.

We tested two months' balances under the old system and two months under the new procedures. During April, June, July, and September 1978, the average

daily balances were \$3,816,935, \$3,979,395, \$4,078,074, and \$6,642,360 respectively. Through discussions with officials of the Treasury Division, the clearing bank, and the Federal Reserve Bank, we determined that the Federal Reserve Bank experienced check clearing problems in September. Due to these problems, \$3,321,180 of the \$6,642,360 balance in September was available for investment by both the individual banks and the Treasury Division. Draw down checks were not written to reduce the remaining balance in the outside banks.

We also evaluated Helena depository bank balances. We noted amounts of \$455,041, \$277,016, \$236,987, and \$420,656 for the months of April, June, July, and September 1978, respectively, in excess of established compensating balances. This represents improvement from prior years; however, these amounts still exceed agreed upon balances.

The Treasury Division should consider requiring Helena based agencies to deposit collections with the Treasury Division or the Helena clearing bank to make state collections available for investment with minimum delays. The Treasury Division should also consider awarding depository contracts to banks outside of Helena on a bid basis wherever there is currently more than one depository bank. Consolidation of state deposits into a single bank in each Montana town could significantly reduce administrative costs relating to state depository banks.

The Treasury Division should formulate and carry out written procedures to reduce the amount of state moneys in state depository banks.

RECOMMENDATION

We recommend that the Board of Investments ensure that the final negotiated compensating balances are equitable for both the state of Montana and the depository banks.

We recommend that the division:

1. Implement written procedures to maintain the amount of state moneys in depository banks at agreed upon balances.
2. Consider consolidating state deposits into one depository bank in each Montana town.

CONTRACTOR DEPOSITS

Pursuant to Section 82-4101 and 82-4102, R.C.M. 1947, the Treasury Division accepts securities from contractors performing state and municipal construction projects in lieu of retainage provisions in the construction contract. It is not the duty of the division to determine the amount of each deposit but to hold the securities in trust. We noted the following problems associated with contractor deposits.

Accounting Records

The securities are primarily in the form of certificates of deposit, and the division accounts for them on subsidiary hand-kept records and as assets held in trust on SBAS. SBAS records these assets in both general and subsidiary ledger form. Contractor deposits were initially recorded on SBAS in May 1978 as a result of the division's implementing a recommendation made after our fiscal year 1976-77 audit of the Treasury Division.

In our prior report we also recommended that the division periodically review the accounting records to disclose discrepancies between securities recorded and securities actually held. Although the division agreed with our recommendation, it has not complied with it. We noted several instances where the subsidiary records did not match the securities actually held. One of the reasons was that the total amount of securities held was not being recorded in the accounting records. Some contractors send securities to the Treasury Division in addition to the amount required to be pledged for particular projects. The extra or unpledged securities were sent to cover possible future projects of the contractors. Only the securities required to be pledged by the contractors are recorded by the division. Department of Administration, Architecture and

Engineering Division, should be responsible for recording the amount of securities required to be pledged for projects. The Treasury Division should record the total amount of securities actually held.

All securities held in trust should be recorded. We counted \$2,888,942 in securities on hand at the division on June 30, 1978. Based on this count, SBAS was understated by \$85,288 and the hand-kept records were overstated by \$24,883.

The purpose of recording the securities on SBAS was to have increased accounting control over the securities. Presently, SBAS records do not disclose the contractor's name, awarding agency, and certificate of deposit number. This information is necessary to properly record contractor deposits on SBAS. SBAS has the capability to generate adequate subsidiary information for contractor deposits. SBAS should be used to reflect all necessary details.

RECOMMENDATION

We recommend that the division:

1. Periodically review accounting records to disclose discrepancies between securities recorded and securities actually held.
2. Record all needed information for contractor deposits on SBAS.

Changes in Securities

By statute, the Treasury Division is the custodian of the securities received from contractors. Upon initial receipt of a security relating to a project, the division sends a record of receipt to the agency awarding the contract, the contractor, and retains a copy in its files. Due to various circumstances, a new security is sometimes exchanged by the contractor for the initial security. The division updates its records to reflect the change but does not send a new record of receipt to the contractor and the awarding agency. To assure adequate communication between the division, the awarding agency, and the contractor, the division should issue a new record of receipt for all changes in securities.

RECOMMENDATION

We recommend that the division issue a receipt to the contractor and the agency awarding the contract for each security received.

INSURANCE COVERAGE

The division maintains a large volume of bearer instruments consisting of investments managed by the Board of Investments, and bearer bonds accepted from contractors.

In a prior audit of the Treasury Division we recommended that the division periodically review the amount of bearer instruments in its possession and adequately insure them. Although the division agreed with our recommendation, it has not complied with it. As of October 12, 1978, the division possessed \$1,270,000 of bearer instruments and the insurance coverage was only for \$990,000. As a result, \$280,000 or 22 percent of the total bearer instruments held were not insured. An official of the insurance company currently insuring bearer instruments at the Treasury Division stated it would cost an additional \$500 for the Treasury Division to insure \$1,300,000 of bearer instruments. It has been the Department of Administration's policy to fully insure these securities. The division should continually review the amount of bearer instruments in its possession and adequately insure them or establish a policy to coinsure securities exceeding the policy amount.

RECOMMENDATION

We recommend that the division fully insure the state's bearer instruments or establish a policy to coinsure securities exceeding the policy amount.

DEPOSIT DELAYS

The Treasury Division receives Concentrated Employment Training Act (CETA) checks from the Employment Security Division (ESD) of the Department of Labor and Industry. These CETA checks are payable to individual state agencies, and the division holds the checks until the agencies submit collection reports for them. In a prior audit of the State Treasurer's office, we recommended that all checks be deposited upon receipt. Although the division agreed with our recommendation, it has not complied with it. On September 15, 1978, we noted that the Treasury Division had been holding \$51,308 of CETA checks for more than one week. Subsequent to our inquiries regarding the situation, the division deposited \$48,556 of the checks and held the validated deposit tickets. Collection reports for these deposits were received the following week. We also noted that some of the CETA checks were held up to a month before a collection report was received and final deposit was made.

The purpose of delivering the checks directly to the division rather than to each state agency is to provide for immediate bank deposit and subsequent investment of the money. The division, by withholding the checks from deposit until agencies send collection reports, defeats that plan and costs the state money in lost interest. Upon receipt, the division should

deposit all checks in the clearing bank to maximize the amount of money the state can invest. Evidence of the deposit, a validated deposit ticket, would provide adequate collection report support when the division receives the report.

RECOMMENDATION

We recommend that the division deposit all CETA checks upon receipt.

COMPLIANCE

The Treasury Division is not complying with Section 79-1215, R.C.M. 1947, which provides that the state treasurer shall keep a permanent record of all gifts, donations, legacies, bequests, and other contributions administered by the state Board of Investments. The administrator of the division stated that the division keeps records showing donations in total by agency but each agency keeps its own detail record of donated property.

The Treasury Division should comply with Section 79-1215, R.C.M. 1947, or seek legislation to change the law.

RECOMMENDATION

We recommend that the division comply with Section 79-1215, R.C.M. 1947, or seek legislation to change the law.

FINANCIAL STATEMENT

DEPARTMENT OF ADMINISTRATION
TREASURY DIVISION
STATEMENT OF CASH POSITION
June 30, 1978

RESOURCES

Cash

Cash on Hand		\$ 10,000
Cash in Employment Security Division Accounts	\$ 1,538,317	
Cash in Demand Accounts (excluding ESD accounts)	<u>8,772,352</u>	10,310,669
Cash in U.S. Treasury		7,447,155

Investments

Time Certificates of Deposit	1,400,000	
STIP Units at Cost	109,436,886	
Other Investments at Cost	<u>74,587,431</u>	185,424,317

Other Resources

Cash Advanced to Banks for Purchasing Bonds and Bond Coupons		<u>476,464</u>
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Total Resources

\$203,668,605

ACCOUNTABILITY

Accountability for Cash in Treasury		\$160,752,717
Accountability for Outstanding Warrants		<u>42,915,888</u>

Total Accountability

\$203,668,605

DEPARTMENT OF ADMINISTRATION

TREASURY DIVISION

Treasurer's Cash Accountability Account
Statement of Cash Position

Notes to Financial Statement June 30, 1978

1. TREASURER'S CASH ACCOUNTABILITY ACCOUNT

The Treasury Division serves as the central bank for all state agencies. The financial transactions relating to the central banking function are recorded in a separate accounting entity known as the Treasurer's Cash Accountability Account.

In operating within the state treasury system, agencies have two options: (a) depositing money directly with the Treasury Division, or (b) depositing money in an approved commercial depository to the credit of the Treasury Division. In either case, all money deposited with the Treasury Division eventually is deposited into a commercial demand bank account secured by collateral deposits.

As required by law, unemployment insurance collections flow through an account with the United States Treasurer.

About 90 percent of the financial transactions recorded in the Treasurer's Cash Accountability Account are made automatically through utilization of computer programs. Whenever a state agency submits a transaction which either increases or decreases the cash in

treasury for a particular accounting entity, a computer program triggers an entry to the Treasurer's records. The summation of these entries produces one general ledger and grand total amounts for cash in demand accounts, cash in treasury, outstanding warrants, investments of general treasury cash, and others.

Most money held by the division is invested. All interest earned on general treasury cash is credited to the general fund account. Some state money is invested specifically on behalf of an accounting entity or other account as permitted by specific statutes. These investments are recorded in those accounting entities.

As with most states, the initial disbursement of funds is made by warrant which, in essence, is a sight draft on the Treasury Division. The total of warrants not yet presented to the Treasury Division for payment is identified as "accountability for outstanding warrants."

2. INVESTMENTS

Investments are stated at cost, which approximates market value for Treasurer's Fund investments.

The Board of Investments is responsible for investing the state's surplus treasury cash (the Treasurer's Fund). Short Term Investment Pool (STIP) units comprise 59 percent of the Treasurer's Fund investments. STIP affords participants liquidity and a

return on moneys that are surplus for short periods of time. The Treasurer's Fund investments also include Montana certificates of deposit, repurchase agreements, and corporate obligations (other investments).

AGENCY REPLY



STATE OF MONTANA
DEPARTMENT OF ADMINISTRATION
DIRECTOR'S OFFICE
MITCHELL BUILDING
HELENA, MONTANA 59601

THOMAS L. JUDGE, Governor

January 23, 1979

Morris L. Brusett
Legislative Auditor
State Capitol
Helena, Montana

RECEIVED
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MONTANA LEGISLATIVE AUDITOR

Dear Morris:

In accordance with your request I have reviewed the report on the audit of the Treasury Division of the Department of Administration and submit the following response to the recommendations contained in the report.

RECOMMENDATION - Page 4

We recommend that the Department of Administration implement procedures to achieve timely submission of collection reports.

RESPONSE

We concur: The Department of Administration has procedures already established on governing the submission of collection reports. The Montana Operations Manual 2-1210.22 updated 11-01-77, states in part that "--all monies collected shall be deposited at least weekly." --(This) "attempts to achieve a workable balance among risks for undeposited collections; cost of making deposits; and an effective investment function." It has been our policy in the past to contact the Centralized Services administrator and inform him of the problem. If the delay persists, a letter will be written to the director or administrator of the offending agency. If an agencies internal control procedure causes extended delays in collection reports being submitted to SBAS, this would seem to be a problem of the agency and not under the control or authority of the Treasury Division to rectify.

If the Treasury Division is granted its request for an additional employee to monitor bank balances, the problem of collection report delay would be reduced. All bank balances would be determined by phone calls directly to the bank (instead of relying on delayed reports) and transfers made accordingly.

RECOMMENDATION - Page 5

We recommend that the division transfer the monies in the bond and coupon account to the clearing bank to provide for its investment.

RESPONSE

We do not concur: The Treasury Division is of the opinion that a separate bank account should be maintained to redeem bonds and coupons. It is a unique type of transaction and whenever possible should not be co-mingled with clearing bank activity. Internal control over bank reconciliations could be weakened if there is not a separate account for the coupons purchased. We will strive to keep this account to a minimal balance to lessen the lost interest. A general fund loan will be booked to this accounting entity.

RECOMMENDATION - Page 7

We recommend that the Department of Administration work with the State Auditor to determine the best method of accounting for returned warrants.

RESPONSE

We concur: The State Auditor is on record as not wanting to create an account for returned warrants. The Department of Administration will discuss the situation with the State Auditor.

The \$ 62,230, of returned warrants amount to .00145 of the total of outstanding warrants of \$ 42,915,888. at fiscal year end.

The control account 7201 - "account for outstanding warrants," is under the control of the State Auditor and is not part of the Treasury Division SBAS general ledger.

RECOMMENDATION - Page 10

We recommend that the Board of Investments ensure that the final negotiated compensating balances are equitable for both the State of Montana and the Depository banks.

We recommend that the division:

1. Implement written procedures to maintain the amount of state monies in depository banks at agreed upon balances.

2. Consider consolidating state deposits into one depository bank in each Montana town.

RESPONSE

(1.) We concur: As Director of the Department of Administration it is my intention to work very closely with the Board of Investments and the Treasury Division to arrive at an equitable compensating balance for the State of Montana and the depository banks.

We are studying the use of a formula presented at the Western States Treasurers Conference. This formula has been used in other states with good results in arriving at an equitable compensating balance. Also, we have returned to the use of draw-down checks for the larger banks. We call each day and ascertain our collected balances and write a check on our account on that respective bank. We receive credit in our account at the clearing bank the following day. The money is then available for investment. This has proven to be a better method than a voluntary weekly transfer of collected funds by the bank.

(2.) We concur: We will consult with the various affected agencies and compile the necessary data for a review and study of this recommendation.

RECOMMENDATION - Page 12

We recommend that the division:

1. Periodically review accounting records to disclose discrepancies between securities recorded and securities actually held.

2. Record all needed information for contractor deposits on SBAS.

RESPONSE

(1.) We concur with this recommendation. The records will be periodically reviewed to disclose discrepancies.

(2.) We concur.

RECOMMENDATION - Page 13

We recommend that the division issue a receipt to the contractor and the agency awarding the contract for each security received.

RESPONSE

We concur with this recommendation. We will notify the parties involved of the changes made per contract.

RECOMMENDATION - Page 14

We recommend that the division fully insure the state's bearer instruments or establish a policy to coinsure securities exceeding the policy amount.

RESPONSE

We concur: However, a check of negotiable securities revealed \$ 1,567,000. in the vault. This will cost \$3,952.00, per Les Hansen of the Insurance and Legal Division. We will request an increase in our budget.

Auditor's Note: The \$3,952 represents only \$851 more than the \$3,101 insurance paid by the Treasury Division for the period January 24, 1978 through January 24, 1979.

RECOMMENDATION - Page 15

We recommend that the division deposit all CETA checks upon receipt.

RESPONSE

We concur.

RECOMMENDATION - Page 16

We recommend that the division comply with Section 79-1215, R.C.M. 1947, or seek legislation to change the law.

RESPONSE

We concur: We have some records dating prior to 1973 when these gifts and donations were assigned to the Board of Land Commissioners. However, in 1973, this law was amended and given to the Board of Investments. We now receive a SBAS form 651 which shows us the amount of monies of each of the various accounts and the controlling agencies within the 8000 Series.

The names, purposes, and amount of the original donors are in the files of the controlling agencies. We are seeking legislation to repeal 79-1215.

Sincerely yours,

A handwritten signature in cursive script that reads "Dave Lewis".

David M. Lewis
Director & Ex Officio State Treasurer
Department of Administration

